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SIPDIS

STATE FOR NEA/ELA, NEA/RA, AND EB/IDF  
USAID FOR ANE/MEA MCCLOUD  
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SUBJECT: EGYPT MONTHLY ECONOMIC REPORT: MAY-JUNE 2005

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Summary  
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[¶11.](#) In this edition: More Egyptian companies make it into international emerging market stock indices and the GOE signs an S&T agreement with the EU. The Ministry of Communication and Information Technology announces a third mobile phone license will be issued and minister Tarek Kamel visits the U.S. Orascom Telecom purchases an Italian telecom. President Mubarak inaugurates a new liquid natural gas facility, the Ministry of Petroleum announces new oil and gas deals as well as new oil discoveries, and Egypt and Israel sign an MOU on gas exports. Air traffic controls go on a "go-slow" strike and Suez Canal revenues increase 18% over last fiscal year. End summary.

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Macroeconomic Developments  
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[¶12.](#) In mid-May Morgan Stanley International (MSI) announced the addition of seven Egyptian companies to its emerging markets indices, bring the total number of Egyptian companies on MSI indices to seventeen. MSI increased Egypt's weight in its indices, which cover all emerging markets, from 0.77% to 0.78%. The change raises Egypt's market capitalization in the MSI indices to \$1.22 billion. The seven new companies included are EFG-Hermes Holding, Egyptian American Bank, Egyptian Financial and Industrial Co., Ezz Rebars, Egypt Beni Souef Cement, Olympic Group and Sinai Cement. The companies were chosen based on largest private sector ownership, market capitalization and trading activity in the Egyptian market. Other Egyptian companies included in the MSI indices include domestic blue chips like Commercial International Bank, AlWatany Egyptian Bank, Eastern Tobacco, Media Production, EIPICO, Mobinil, Nasr City Construction, Misr International Bank, Orascom Construction and Orascom Telecom Holding.

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Science and Technology  
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[¶13.](#) S&T Conference: On May 28, PM Nazif opened the First National Conference for Scientific Research in Egypt. About 4,000 Egyptian scientists and researchers, including Egyptian expatriate scientists, and various Cabinet ministers attended the two-day event. The conference focused on soliciting feedback from the S&T community on development of a new strategy for promoting scientific research, services and technology in Egypt. For the first time in recent memory, ministers fielded direct questions from working-level Egyptian scientists and listened to their opinions on S&T issues. Minister of Foreign Trade and Industry Rashid discussed plans to increase private sector funding of R&D projects and Minister of Higher Education and Scientific Research Salama noted that his ministry would establish a fund to support R&D.

[¶14.](#) The conference produced a series of recommendations to shape a new national S&T strategy for Egypt. The most significant decision was to increase the GOE budget allocation for scientific research by 10-50%. The increase would include salaries and administrative costs for scientific institutions. The conference action plan will be published at the end of July. (Comment: PM Nazif's commitment to increasing the S&T budget and the presence at the conference of reform-minded ministers such as Rashid indicates that the GOE is serious about reform in the field of scientific research. Private sector involvement will be key, however, and the GOE's ability to attract foreign investment in S&T will depend on continued commitment to macroeconomic reform. End comment).

[¶15.](#) EU-Egypt S&T Agreement: On June 21, PM Nazif attended the signing of a new S&T agreement between Egypt and the EU. According to Fawzi El Refaei, President of the Egyptian Academy of Scientific Research and Technology, the agreement

aims to expand S&T cooperation and provides for Euro 11 million in funding for S&T projects. The agreement allows Egyptian scientists and research institutions to apply for funding of specific R&R projects from EU sources. El Refaei indicated that funding from this agreement would be channelled into areas of development identified in Egypt's new S&T strategy.

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Telecommunications and Info Tech  
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¶16. In mid-May, Minister of Communication and Information Technology (MCIT) Tarek Kamel announced that the GOE would soon issue a license for a third mobile phone operator. The RFP would be issued in 3-4 months and proposals would be reviewed by early 2006, with the goal of getting the third operator in place by mid-2007. Kamel indicated that MCIT anticipated LE 2.5 billion in licensing fees from the new operator. The coming RFP would be "technology neutral," i.e., either GSM or CDMA. According to a study by the National Telecommunications Regulatory Authority (NTRA), Egypt's mobile market growth rate is currently 12%, but is expected to reach 25% within five years.

¶17. In late May, the Information Technology Industry Development Authority (ITIDA) invited Egyptian and international firms to apply for e-signature licenses under Law 15 of 2004, which regulates e-signatures. According to ITIDA, use of e-signature technology will encourage new investment in e-commerce and e-business projects and facilitate access to global e-business sectors. Details of the licensing requirements can be found at [www.itida.gov.eg/csp](http://www.itida.gov.eg/csp).

¶18. Also in late May, Orascom Telecom (OT) announced the \$130 million sale of its controlling stake in Libertis, a GSM company in the Democratic Republic of Congo, and Libertis' operator Oasis Telecom. Also in late May, Naguib Sawiris, CEO of OT, announced the purchase of Wind, the telecom subsidiary of Italian conglomerate Enel, by the newly established "Weather Investments." Sawiris owns 73.9% of Weather Investments and Enel owns the remaining shares. OT plans to eventually transfer 51% of its shares to Weather Investments. The total cost of the purchase was Euro 17.2 billion.

¶19. MCIT Minister Kamel made his first official visit to the U.S. June 18-28. The delegation included the Chairman of NTRA, the President of Telecom Egypt and representatives from approximately 20 Egyptian IT firms. Kamel held meeting with USG officials and on the Hill, and also met with Microsoft Chairman Bill Gates and executives from Intel, Cisco, and Oracle. The visit led to establishment of a U.S.-Egypt IT consultative council. Kamel also witnessed the signing of several business deals, including a \$5 million agreement between Egypt's QuickTel and Qualcomm to service wireless networks in Egypt. The minister also announced that NTRA would soon issue licensing terms for Voice-over Internet Protocol (VoIP) service in Egypt.

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Energy  
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¶10. On May 30, President Mubarak inaugurated the liquefied natural gas (LNG) plant at the Mediterranean Gas Complex in Damietta. The LNG facility is owned and operated by the Spanish Egyptian Gas Company (SEGAS), which is 80% owned by Union Fenosa Gas (50% Union Fenosa of Spain and 50% ENI of Italy), and 20% owned by Egyptian State Holding Companies. The \$1.3 billion facility was built by a joint venture of Halliburton KBR, JGC Corporation of Japan, and Tecnicas Reunidas of Spain. The output of the facility, 5.5 mt/yr, has already been committed for the next 25 years. The Mediterranean Gas Complex near Damietta is a joint investment between the Italian AGIP and British Petroleum.

¶11. In mid-June, Petroleum Minister Fahmi announced that the GOE had signed 36 new oil and gas exploration agreements over the last year for a total investment of \$250 million. The agreements will result in the drilling of 55 new wells in the Western Desert, the Nile Delta, and off the Mediterranean coast and Gulf of Suez. Foreign investors in the agreements include British Gas, Malaysian Petronas, International Egyptian Oil Company (an Italian subsidiary of AGIP) and Apache. Announcement of the new exploration agreements was followed by three new oil discoveries in late June. The largest was at Ras Gharib-Amr, a 50-year-old oil field in the Gulf of Suez, 2 km offshore. The discovery was the first at Ras Gharib-Amr in the last 40 years. The second discovery was at El Tamad, approximately 90 km northeast of Cairo. This was the first on-shore oil discovery in the northern Nile Delta region. The third discovery was at El Diyur in Egypt's Western Desert. Total reserves from the new discovery were estimated at 70 million

barrels of crude oil.

**¶12.** Egypt-Israel Gas Agreement: On June 30, Fahmi signed an MOU with Israeli National Infrastructures Minister Binyamin Ben-Eliezer, clearing the way for a long-awaited \$2.5 billion commercial gas deal between Eastern Mediterranean Gas (EMG) and the Israeli state-owned Electrical Company (IEC). While the commercial details remain to be determined, EMG will export approximately 25 billion cubic meters of gas over 15 years from the Egyptian port of El Arish to the port of Ashdod in Israel. EMG is an Egyptian-registered company 25% owned by Israel's Merhav Group. Egyptian businessman Hussein Salem owns another 65% of EMG and the Egyptian Gas Holding Company owns the remaining 10%.

**¶13.** The MOU provides a "political umbrella" for the commercial agreement, and commits the GOE to providing gas to EMG and the GOI to providing tax exemptions for equipment and materials. Completion of the project is expected to take two years. Announcement of the MOU was coordinated with announcement of cooperation between the GOE and the Palestinian Authority on gas exports. Headlines of some opposition papers tried to portray the MOU as an attempt to appease the USG and deflect pressure for further political and democratic reform.

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Aviation  
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**¶14.** In early May, Egyptian air traffic controllers went on a "go-slow" strike, their second in the span of two months, to protest the Ministry of Civil Aviation's penalization of 8 air traffic controllers for delays at Sharm El Sheikh airport. The Association of Egyptian Air Traffic Controllers threatened to bring air traffic to a total halt if the penalties were not lifted. Controllers also demanded a doubling of salaries over three years, better health insurance and better promotion opportunities. The strike ended after Minister of Civil Aviation Shafik promised to look into the strikers' demands for better pay and conditions. Aviation officials indicated that the controllers conducted the go-slow in line with International Civil Aviation Organization standards, but failed to announce the go-slow to the airlines in advance. Unofficial reports indicated that losses from the go-slow amounted to \$31 million.

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Suez Canal and Maritime Transport  
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**¶15.** In early May, the Suez Canal Authority indicated that revenues from Suez Canal tolls during FY 2004/2005 would exceed \$3.2 billion, compared to \$2.82 billion during FY 2003/2004. During the first 9 months of FY 2004/2005 (July 2004- March 2005), revenues increased by \$369 million to \$2.446 million, up 18% from the previous year. A recent study by the Ministry of Transportation indicated that total revenue from port facilities, excluding customs, duties and taxes, increased in 2004 by 25% to L.E. 2.24 billion.

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Economic Statistics  
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**¶16.**

Exchange Rate:

	(05/31/05)	(06/30/05)
Egyptian Pounds/\$	Buying	Selling
Avg. Bank/Bureau Rate	578.79	581.22

Capital Market:

	(05/31/05)	(06/30/05)
Capital Markets Authority Index	1644	1789
Hermes Financial Index	36344	41772
EFG Index	19599	22692

Interest Rates:  
(percent, monthly comparison)

Interbank Overnight	9.49	9.55
T-bills (182 days)	9.88	8.39
T-Bond (maturing 01/06)	4.15	4.15
T-Bond (maturing 04/09)	5.50	5.50

Foreign Reserves:  
(US \$ billion, official gov't figures)

(04/2005)	(05/2005)
18.470	18.712